

**REPORT OF THE AUDIT OF THE  
OWEN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT**

**June 30, 2006**

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities and each major fund.

#### **Financial Condition:**

The fiscal court had net assets of \$26,951,003 as of June 30, 2006. The fiscal court had unrestricted net assets of \$1,287,047 in its governmental funds as of June 30, 2006. The fiscal court had total debt principal as of June 30, 2006 of \$134,533 with \$28,952 due within the next year.

#### **Deposits:**

As of August 31, 2005, \$290,439 of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.



CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
OWEN COUNTY OFFICIALS.....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES .....	37
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	40
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	43





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable William P. O'Banion, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robert M. Burnside, Secretary  
Finance and Administration Cabinet  
Honorable William P. O'Banion, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2007 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 25, 2007

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2006

**Fiscal Court Members:**

William P. O'Banion	County Judge/Executive
Carl Banks	Magistrate
Bobby Gaines	Magistrate
Gary Minch	Magistrate
Eugene Vannarsdall	Magistrate

**Other Elected Officials:**

Charles Carter	County Attorney
David Bruce	Jailer
Mary K. Duncan	County Clerk
Cindy Wright	Circuit Court Clerk
Zemer Hammond	Sheriff
Lee N. Cochran	Property Valuation Administrator
Lannis Garnett	Coroner

**Appointed Personnel:**

Gayla Lewis	County Treasurer
Renaee Gaines	Payroll Officer

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**OWEN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**OWEN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<u><b>Primary Government Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,287,047
Total Current Assets	<u>1,287,047</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	261,400
Buildings	522,638
Vehicles and Equipment	480,007
Infrastructure Assets - Net of Depreciation	<u>24,534,444</u>
Total Noncurrent Assets	<u>25,798,489</u>
Total Assets	<u>27,085,536</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	28,952
Noncurrent Liabilities:	
Financing Obligations	<u>105,581</u>
Total Liabilities	<u>134,533</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	25,663,956
Unrestricted	<u>1,287,047</u>
Total Net Assets	<u>\$ 26,951,003</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**OWEN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
Administratioin/General Government	\$ 1,202,924	\$	\$ 53,300	\$ 114,873
Protection to Persons and Property	760,748	509,197	70,613	35,099
General Health and Sanitation	132,653			
Social Services	37,031			
Recreation and Culture	60,133			
Roads	1,876,972		899,444	477,404
Debt Service	28,049			
Capital Projects	495,770		491,955	
Total Governmental Activities	<u>\$ 4,594,280</u>	<u>\$ 509,197</u>	<u>\$ 1,515,312</u>	<u>\$ 627,376</u>

**General Revenues:**

Taxes:	
Real Property Taxes	
Personal Property Taxes	
Motor Vehicle Taxes	
Other Taxes	
Excess Fees	
Miscellaneous Revenues	
Total General Revenues	
Change in Net Assets	
Net Assets - Beginning (Restated)	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

**OWEN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

**Net (Expenses) Revenues  
and Changes in Net Assets**  
**Primary Government**

**Governmental  
Activities**

\$	(1,034,751)
	(145,839)
	(132,653)
	(37,031)
	(60,133)
	(500,124)
	(28,049)
	(3,815)
\$	<u>(1,942,395)</u>

\$	393,802
	13,888
	90,435
	745,716
	68,862
	89,417
	<u>1,402,120</u>
	(540,275)
	<u>27,491,278</u>
\$	<u>26,951,003</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**



**OWEN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 878,323	\$ 403,397	\$ 5,327	\$ 1,287,047
Total Assets	<u>\$ 878,323</u>	<u>\$ 403,397</u>	<u>\$ 5,327</u>	<u>\$ 1,287,047</u>
<b>FUND BALANCES</b>				
Unreserved:				
General Fund	\$ 878,323	\$	\$	\$ 878,323
Special Revenue Funds		<u>403,397</u>	<u>5,327</u>	<u>408,724</u>
Total Fund Balances	<u>\$ 878,323</u>	<u>\$ 403,397</u>	<u>\$ 5,327</u>	<u>\$ 1,287,047</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,287,047
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	35,394,358
Accumulated Depreciation	(9,595,869)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(134,533)</u>
Net Assets of Governmental Activities	<u>\$ 26,951,003</u>

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**OWEN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**OWEN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,243,841	\$	\$	\$ 1,243,841
Excess Fees	68,862			68,862
Intergovernmental	704,393	1,320,348	71,018	2,095,759
Charges for Services	506,627		645	507,272
Miscellaneous	116,412			116,412
Interest	18,513	3,346		21,859
Total Revenues	<u>2,658,648</u>	<u>1,323,694</u>	<u>71,663</u>	<u>4,054,005</u>
<b>EXPENDITURES</b>				
General Government	641,797			641,797
Protection to Persons and Property	571,257		236,690	807,947
General Health and Sanitation	148,503			148,503
Social Services	36,829			36,829
Recreation and Culture	56,707			56,707
Roads		1,120,767		1,120,767
Debt Service	28,049			28,049
Capital Projects	495,770			495,770
Administration	442,864	189,527	13,378	645,769
Total Expenditures	<u>2,421,776</u>	<u>1,310,294</u>	<u>250,068</u>	<u>3,982,138</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>236,872</u>	<u>13,400</u>	<u>(178,405)</u>	<u>71,867</u>
<b>Other Financing Sources (Uses)</b>				
Financing Obligation Proceeds	47,586			47,586
Transfers From Other Funds			182,000	182,000
Transfers To Other Funds	(182,000)			(182,000)
Total Other Financing Sources (Uses)	<u>(134,414)</u>		<u>182,000</u>	<u>47,586</u>
Net Change in Fund Balances	102,458	13,400	3,595	119,453
Fund Balances - Beginning (Restated)	775,865	389,997	1,732	1,167,594
Fund Balances - Ending	<u>\$ 878,323</u>	<u>\$ 403,397</u>	<u>\$ 5,327</u>	<u>\$ 1,287,047</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**OWEN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ 119,453
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	517,687
Depreciation Expense	(1,191,987)
Book Value of Capital Assets Sold	(8,500)
Financing Obligation Proceeds Provide a Current Financial Resource to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Amounts, However, Have no Effect on Net Assets and Have Been Eliminated on the Statement of Activities.	
Financing Obligation Proceeds	(47,586)
Financing Obligations Principal Payments	<u>70,658</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (540,275)</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	25
NOTE 2.	DEPOSITS .....	29
NOTE 3.	CAPITAL ASSETS .....	30
NOTE 4.	FINANCING OBLIGATIONS .....	31
NOTE 5.	INTEREST ON FINANCING OBLIGATIONS .....	32
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM .....	32
NOTE 7.	DEFERRED COMPENSATION.....	32
NOTE 8.	INSURANCE.....	32
NOTE 9.	ESTIMATED INFRASTRUCTURE HISTORICAL COST .....	33
NOTE 10.	BEGINNING BALANCE RESTATED.....	33

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

**C. Owen County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major. For this fiscal year, there were no non-major funds reported by the fiscal court.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Special Revenue Funds:**

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2005, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$290,439 of public funds exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized \$290,439

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
<b>Primary Government:</b>			
Capital Assets Not Being Depreciated:			
Land	\$ 215,000	\$	\$ 215,000
Total Capital Assets Not Being Depreciated	215,000		215,000
Capital Assets, Being Depreciated:			
Land Improvements	50,000		50,000
Buildings	612,126		612,126
Vehicles and Equipment	1,570,937	156,106	(110,398)
Infrastructure	32,539,006	361,581	32,900,587
Total Capital Assets Being Depreciated	34,772,069	517,687	(110,398)
Less Accumulated Depreciation For:			
Land Improvements	(1,800)	(1,800)	(3,600)
Buildings	(80,087)	(9,401)	(89,488)
Vehicles and Equipment	(1,135,156)	(103,380)	101,898
Infrastructure	(7,288,737)	(1,077,406)	(8,366,143)
Total Accumulated Depreciation	(8,505,780)	(1,191,987)	101,898
Total Capital Assets, Being Depreciated, Net	26,266,289	(674,300)	(8,500)
Governmental Activities Capital Assets, Net	\$ 26,481,289	\$ (674,300)	\$ (8,500)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 18,821
Protection to Persons and Property	43,602
General Health and Sanitation	1,650
Social Services	202
Recreation and Culture	3,426
Roads, Including Depreciation of General Infrastructure Assets	<u>1,124,286</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,191,987</u>

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Financing Obligations**

- A.** On November 17, 2005, the Owen County Fiscal Court entered into a \$47,586 four-year financing agreement with Ford Motor Credit Company to purchase two police cruisers at an interest rate of 6.35%. An annual payment is due each November 21, with the first monthly payment beginning November 21, 2005. The following schedule outlines the remaining payments.

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 10,810	\$ 2,193
2008	11,496	1,507
2009	12,227	776
Totals	<u>\$ 34,533</u>	<u>\$ 4,476</u>

- B.** On August 10, 2005, the Owen County Fiscal Court entered into a \$100,000 five-year financing agreement with Oshkosh Capital to purchase a new ambulance. The ambulance was included in the 2005 fiscal year capital assets and the beginning long-term debt is restated to include the financing obligation. An annual payment is due each July 24, with the first payment due July 24, 2006. Payments are outlined in the following schedule.

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 18,142	\$ 4,473
2008	19,242	3,373
2009	20,035	2,580
2010	20,861	1,754
2011	21,720	895
Totals	<u>\$ 100,000</u>	<u>\$ 13,075</u>

**C. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 157,605</u>	<u>\$ 47,586</u>	<u>\$ 70,658</u>	<u>\$ 134,533</u>	<u>\$ 28,952</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 157,605</u>	<u>\$ 47,586</u>	<u>\$ 70,658</u>	<u>\$ 134,533</u>	<u>\$ 28,952</u>

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 5. Interest On Financing Obligations**

Debt Service on the Statement of Activities includes \$2,521 in interest on financing obligations.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Insurance**

For the fiscal year ended June 30, 2006, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**OWEN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 9. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter, are recorded at actual historical cost.

**Note 10. Prior Period Adjustments**

The net asset beginning balance was decreased by \$100,221 to account for long-term debt on a capital asset included in the prior year and for an immaterial error.

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**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**



**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 1,156,400	\$ 1,218,150	\$ 1,243,841	\$ 25,691
Excess Fees	18,931	68,505	68,862	357
Intergovernmental Revenue	2,536,015	2,550,795	704,393	(1,846,402)
Charges for Services	376,000	401,500	506,627	105,127
Miscellaneous	2,800	7,855	116,412	108,557
Interest	21,192	21,192	18,513	(2,679)
Total Revenues	<u>4,111,338</u>	<u>4,267,997</u>	<u>2,658,648</u>	<u>(1,609,349)</u>
<b>EXPENDITURES</b>				
General Government	601,980	617,180	641,797	(24,617)
Protection to Persons and Property	663,903	673,803	523,671	150,132
General Health and Sanitation	135,573	145,573	148,503	(2,930)
Social Services	33,613	36,113	36,829	(716)
Recreation and Culture	47,375	54,755	56,707	(1,952)
Debt Service	2,768,424	2,768,424	28,049	2,740,375
Capital Projects	2,256,270	2,256,270	495,770	1,760,500
Administration	391,288	502,967	442,864	60,103
Total Expenditures	<u>6,898,426</u>	<u>7,055,085</u>	<u>2,374,190</u>	<u>4,680,895</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,787,088)</u>	<u>(2,787,088)</u>	<u>284,458</u>	<u>3,071,546</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(171,112)</u>	<u>(171,112)</u>	<u>(182,000)</u>	<u>(10,888)</u>
Total Other Financing Sources (Uses)	<u>(171,112)</u>	<u>(171,112)</u>	<u>(182,000)</u>	<u>(10,888)</u>
Net Changes in Fund Balance	<u>(2,958,200)</u>	<u>(2,958,200)</u>	<u>102,458</u>	<u>3,060,658</u>
Fund Balance - Beginning (Restated)	<u>2,958,200</u>	<u>2,958,200</u>	<u>775,865</u>	<u>(2,182,335)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 878,323</u>	<u>\$ 878,323</u>

**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,471,452	\$ 1,513,517	\$ 1,320,348	\$ (193,169)
Miscellaneous	600	600		(600)
Interest	4,600	4,600	3,346	(1,254)
Total Revenues	<u>1,476,652</u>	<u>1,518,717</u>	<u>1,323,694</u>	<u>(195,023)</u>
<b>EXPENDITURES</b>				
Roads	1,289,435	1,309,000	1,120,767	188,233
Administration	187,217	209,717	189,527	20,190
Total Expenditures	<u>1,476,652</u>	<u>1,518,717</u>	<u>1,310,294</u>	<u>208,423</u>
Net Changes in Fund Balance			13,400	13,400
Fund Balance - Beginning			<u>389,997</u>	<u>389,997</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 403,397</u>	<u>\$ 403,397</u>

**OWEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 56,394	\$ 64,144	\$ 71,018	\$ 6,874
Charges for Services	400	400	645	245
Total Revenues	56,794	64,544	71,663	7,119
<b>EXPENDITURES</b>				
Protection to Persons and Property	215,175	239,751	236,690	3,061
Administration	12,731	13,376	13,378	(2)
Total Expenditures	227,906	253,127	250,068	3,059
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(171,112)	(188,583)	(178,405)	10,178
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	171,112	171,112	182,000	10,888
Total Other Financing Sources (Uses)	171,112	171,112	182,000	10,888
Net Changes in Fund Balance		(17,471)	3,595	21,066
Fund Balance - Beginning			1,732	1,732
Fund Balance - Ending	\$ 0	\$ (17,471)	\$ 5,327	\$ 22,798

**OWEN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis differs from the Budgetary Comparison Schedule for the General Fund in expenditures by \$47,586 due to purchase of capital assets using financing obligation proceeds.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable William P. O'Banion, Owen County Judge/Executive  
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 25, 2007. Owen County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 25, 2007

